

**A
U
D
I
T

R
E
P
O
R
T**

SCOTTSDALE CITY COUNCIL

Herbert Drinkwater, Mayor
Councilman Greg Bielli
Councilman James Burke
Councilwoman Mary Manross
Councilman Robert Pettycrew
Councilman Donald Prior
Councilman Richard Thomas

**SURVEY OF CITY
ASSET MANAGEMENT**

City asset management -- acquisition, management, maintenance, strategic planning, and surplus property disposal -- is a function performed by staff throughout the City. Now is a good time to strengthen and refocus these efforts.

**Report No. 9405
February 1996**



February 22, 1996

To the Most Honorable Herbert R. Drinkwater, Mayor
and the Members of the Scottsdale City Council:

Transmitted herewith is the Survey of City Asset Management Report No. 9405. This survey was a scheduled project approved by City Council as part of the City Auditor's 1994 Audit Plan. Janet Lowden served as the auditor-in-charge, and Preson Phillips, Jr. and Ramon Ramirez participated. Kathy Rivetna, Financial Services Coordinator, and Adrianne Camacho, an intern from Arizona State University West, also participated in the project. We gratefully acknowledge as well the support and assistance of Ron King, Asset Management Coordinator.

The preliminary survey work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III Scottsdale Revised Code §2-117, *et seq*, with one exception. The last peer review of the City Auditor was completed April 5, 1991. Thus, we currently do not comply with the standards' three year peer review requirement.

If you need additional information or have any questions, please feel free to contact us at 994-7756.

Respectfully submitted,

A handwritten signature in cursive script that reads "Cheryl L. Barcala".

Cheryl Barcala, CIA, CPA, CFE
Scottsdale City Auditor

Gail Crawford, CPS

SURVEY OF CITY ASSET MANAGEMENT ACTION PLAN

No.	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		RECOMMENDATIONS
	AGREE	DISAGREE	UNDERWAY	PLANNED	
1	X		Due 5/1/96		<p>The City Manager should:</p> <p>Direct development of an appropriate organization structure for the asset management function. Required knowledge, skills, and abilities of asset management staff and performance measures should be defined.</p> <p>Direct development of a sustainable real estate inventory information system.</p> <p>Direct the drafting of needed changes to the City Charter and Ordinances to regulate the asset management function.</p> <p>The Planning Administrator, Planning and Development, should:</p> <p>Ensure that existing practices of the asset management coordinator are documented, and existing real property files are restructured and completed to provide all needed documents to ensure City ownership of current property.</p>
2	X		Due 7/1/96		
3	X		Due 12/96		
4	X		Due 12/96		

CHAPTER ONE

Survey of City Asset Management
City Auditor Report No. 9405

Introduction

As the City grows, it acquires real property. Property can be purchased outright or dedicated by private owners for use in constructing streets and storm drains. Property can be acquired for the parks and library system, or to provide for water, sewer, and solid waste disposal needs. Some property is acquired to provide facilities for normal City administrative activities. While real property is gotten by a variety of methods for many purposes, it shares one common characteristic--it is valuable. City property is valuable by two measures. First, according to City records, real property it owns or controls has a historical (as opposed to market) value estimated to be more than \$1.5 billion. Structure replacement value for insurance purposes has been set at more than \$158 billion. Second, real property is valuable because it provides the service infrastructure for Scottsdale citizens and visitors. Due to its value, good business practices would provide a process to make sure that City real property is adequately safeguarded and managed. This process, commonly termed "asset management," was scheduled to be audited as part of the Office of the City Auditor's 1994 annual audit plan.

In preparation for the audit, City Auditor staff conducted a preliminary survey of the asset management function. Survey objectives were to assess internal controls for the acquisition, leasing, and disposing of real property, as well as to evaluate the controls in place to safeguard the property after acquisition. Appendix A discusses survey objectives, scope, and method. Fieldwork commenced on June 29, 1994, and stopped in August 1994. Our judgment was that the City at that time did not have an asset management function in place with which to implement audit recommendations at the close of the audit. Management was briefed on survey findings, agreed with our assessment, and elected to further evaluate the need to create a new asset management function. A process re-engineering team was chartered in April 1995 to design an asset management function that:

- Clearly defines the scope of asset management.
- Clearly identifies the goals and objectives of asset management.
- Establishes key, measurable objectives for asset management.
- Develops asset management procedures for tracking, managing, valuing, and reporting about assets.

The team consists of representatives from various departments, including our office. Over the last nine months, the team has met weekly to examine the City's organization and processes for managing real property. A report of recommended changes and performance measures was scheduled to be completed by January 1996.

The first priority of the team was to design a real estate inventory information system. As part of the work on this task, an intern on our staff was assigned to inventory Community Services leases. We will continue to provide assistance in establishing this system.

Results In Brief

According to the US General Accounting Office, government asset management provides property acquisition and management (including lease administration), facilities maintenance, strategic planning, and surplus property disposal as strategic tools to use assets as investments and meet mission needs. Right now, the City does not have effective and efficient asset management. Concentrated in the mid-1980s in a real estate unit, a dispersed City asset management function had lost its focus as a City-wide service provider by the mid-1990s. City policy and procedures to guide operations have not been developed. Oversight and management of City-owned or controlled real property from a City-wide perspective is difficult because information which could be used for strategic or operational decisions is limited.

Asset management responsibilities now are performed by staff throughout the City. Efficiency and effectiveness of the efforts varies widely. Staff administer properties without adequate policies and procedures, and with insufficient training and expertise. Decisions to acquire or to dispose of property are made on a case-by-case basis, not measured against a City strategic goal. Departmental management oversight is difficult. Additionally, a current, comprehensive inventory of City-owned or controlled properties does not exist and information regarding the number of parcels as well as their market values is of unverified accuracy.

Without an effective asset management function, the City does not have a good tool to make sure that real property value and use is maximized. There is little assurance that lease revenues are optimal and that decisions to either retain or dispose of property are correct. Additionally, there is no assurance that all right-of-way dedications or easements have been properly recorded so that they can be identified when required.

In order to correct this, the City needs to make organizing an effective asset management function a priority. Reliable information about property location, current value, and use, which would enhance strategic or operational decisions, should be available from a comprehensive inventory information system. Real estate experts should be available to advise staff and protect City interests. A City Asset Management Code needs to be developed to provide policies and procedures governing the acquisition, management, and disposal of property. Policies and procedures to guide City staff who administer properties need to be developed, implemented, and monitored. Finally, a strategic plan with goals, objectives, and performance measures needs to be developed and implemented.

Background City Charter and ordinance offer a limited policy framework for asset management, while various City staff interpret the policymakers' intent in their administrative practice. Administrative practices mostly are unwritten, and have grown up over time as needed.

City Charter Provisions

The City may acquire property within or without its corporate limits for any City purpose, in fee simple or any lesser interest or estate, by purchase, gift, devise, lease, or condemnation, and may sell, lease, mortgage, hold, manage, and control such property as its interests may require.

Section §3-A

The Council may lease any land, buildings, or personal property on such terms and conditions as the Council may prescribe.

Section §7

SOURCE: City Charter

**Evolution Of Current
Asset Management**

One basic cause of the existing situation is a reorganization to focus on building capital projects. Prior to 1989, asset management traditionally was the responsibility of the Planning and Development Department, which housed the Real Estate Services unit. A 1989 reorganization split Real Estate Services in two. The City-wide process focal point, the asset management coordinator position, remained in Planning and Development and a Right-of-Way (ROW) Acquisition unit was created in Capital Project Management, Municipal Services Department.

A Look At History In the 1980s, Real Estate Services was staffed by three Real Estate Services Officers, a contract Real Estate Officer, and a part-time intern, who bought property for the City and tracked an inventory of real property, compiled from Maricopa County Assessor records. Staff also developed five-year forward strategic plans for acquisition and disposition of City property. In addition, Real Estate Services staff managed some City lease agreements and kept property records.

Real Estate Services Property Records	
aerial photos	easements
tax maps	liens recorded on the property
tax assessor rolls	quarter section maps
warranty deeds	recorded leases

In 1989, because of the organization of the Capital Project Management (CPM) unit, Real Estate Services was split into two parts. Two positions were transferred to ROW Acquisition in CPM, and the third position remained in Planning and Zoning, now the Planning and Development Department. (Two of the initial five positions were left vacant due to budget cuts when incumbents left the City.) Responsibilities were split, too. CPM ROW staff were focused on acquiring property rights needed for building the City's capital projects and on relocation. This narrow focus made it possible for property rights needed for capital improvements to be obtained on time for construction. (See pages 18 to 20 for an assessment of the ROW process, *Capital Improvement Program Control Review*, Report No. 9101, November 1994.)

The asset management coordinator, the remaining position in Planning and Development, was responsible for all other real estate duties as well as for non-CIP property acquisition. Additionally, the position became responsible to direct the Community Development Block Grant Program for a time. Adding further to the job's scope, in fiscal year 1990/91, Purchasing transferred leasing and property disposal to Planning and Development. Leasing and property disposal were assigned to the asset management coordinator. ROW staff participated as time permitted to advise and assist the asset management coordinator in those areas when requested.

Asset Management Coordinator Job Description

- *evaluates real estate for highest and best use and appropriateness for City activities, and inspects City-owned real estate
- *maintains an up-to-date inventory of City-owned real estate
- *maintains accurate data relating to all City revenue leases, leases to businesses on City-owned or controlled property
- *evaluates properties for acquisition, disposition, or investment and makes recommendations for action
- *coordinates appraisals of all City-owned property
- *disposes of property
- *performs financial analysis to evaluate acquisition, disposition, and investment decisions
- *completes research and recommends policy and strategy for joint public/private development opportunities; manages projects including negotiating with property owners, lessors, brokers, attorneys, and appraisers
- *prepares documentation, negotiates, and writes leases
- *responds to citizen inquiries on real estate questions
- *negotiates, prepares, and administers leases for City-owned property
- *monitors City-owned property for compliance with zoning ordinances and regulations
- *analyzes plans and directives and prepares legal descriptions for property to be disposed of
- *drafts and executes written instruments for the transfer of real property

SOURCE: Human Resources

Current Operations

Currently, staff throughout the City administer real estate, including revenue leases. In Planning and Development, the asset management coordinator works with any transactions that are not related to capital projects, while the public facilities planner assesses City office space requirements. The economic development director and the planning administrator advise on strategic property acquisition or disposal decisions. The Development Services division manages records, including deeds. The Project Review division handles property dedications from developers or private citizens, and zoning stipulations.

In Municipal Services, ROW staff acquire all property that is capital projects related, as well as assist in other City projects upon request. Facilities Maintenance helps keep City property up to code and functional, as well as provides the necessary utilities. Other departments provide support services. Financial Services makes sure that property is appropriately insured and tracks lease revenue and fixed asset valuation. City Attorney staff provide legal advice and assistance while the City Clerk keeps some copies of dedications, easements, and warranty deeds. The Environmental Office makes

sure that the City limits its liabilities for environmental harm from its real estate functions. Still other departments, such as Water Resources and Police, identify their own property needs, initiate acquisition, and subsequently manage the property.

Valuation Estimates Preliminary estimates are that the City owns or controls over 600 parcels of real estate and over 100 property-related agreements, such as leases. As reported in the City's June 1995 Comprehensive Annual Financial Report, the recorded value of City real property assets including land, buildings and improvements, streets and storm drains, and construction in progress, was \$1.5 billion. This value is not the current market value. It represents either the historical cost of the asset or the estimated fair market value of the asset at the time it came into the City. Government accounting standards have not required valuing property at the market or depreciating property recorded in the general fund. (Property reported in Enterprise Funds includes depreciation.)

As of June 30, 1995, the following are the recorded values of City real estate:

General Fixed Assets	
land	55,561,783
buildings and improvements	169,425,027
streets and storm drains	897,822,379
construction in progress	<u>38,742,017</u>
Subtotal	\$1,161,551,206
Enterprise Funds	
land and land improvements	\$ 17,869,894
water rights	22,911,267
water system	208,211,004
sewer system	109,472,230
buildings and improvements	1,929,146
construction in progress	<u>14,351,738</u>
Subtotal	\$374,745,279
Internal Service Funds	
buildings and improvements	\$1,448,103
construction in progress	<u>682,286</u>
Subtotal	\$2,130,389
Total	\$1,538,426,874
SOURCE: City of Scottsdale Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1995.	

CHAPTER

TWO

Survey of City Asset Management
City Auditor Report No. 9405

Asset Management Needs To Be "Reinvented" To Fit City Goals

Now is a good time for the City to structure an effective asset management function. In 1995, the City adopted its first biennial budget, based on a five-year balanced financial plan. The budget is tied to critical objectives and strategies, one of which is a capital plan that envisions maximizing the value and use of City real property. A viable asset management function will help to support this capital plan.

In the 1980s, asset management was primarily the responsibility of the Real Estate Services unit in the Planning and Zoning (now Planning and Development) Department. As discussed in Chapter One, during a reorganization in 1989, responsibilities were split. Subsequently, City-wide management languished, an apparently unforeseen result of devoting real estate experts to capital projects, approved in the November 1989 bond election. Since the reorganization, several proposals have been developed to strengthen the asset management function. These proposals, for one reason or another, were not implemented. They ranged from adding staff or hiring consultants in Planning and Development, to restructuring the asset management function. Strengthening management and oversight of City real property now needs to be a priority.

Key Functions Of A Revitalized Asset Management

There have been several common threads in prior proposals to strengthen asset management. These include the need to identify and implement a strategy to determine when and how to dispose of surplus properties, how to identify and plan for City space needs, and how to provide for staff education and experience in issues such as escrow, title insurance, negotiation, and enforcement. As a growing, innovative City, Scottsdale should reasonably expect that the need for effective asset management will increase. To meet these needs requires assessing what staff skills are needed in asset management, how many staff are needed to meet workload, and where staff should be housed organizationally.

A Strategic Plan For Real Property Needs To Be A Priority

As the City grows, its need for acquiring and disposing of real property will also grow. One of the ways to make sure that property is acquired when needed and disposed of if no longer needed is to develop a strategic plan. Procedures to re-evaluate and modify the plan would also need to be in place to ensure that the plan did not

become outdated. Currently, the City prepares numerous master plans for departments, but these plans are not folded into a plan for managing property. This results in case-by-case acquisition or disposal of property without any assurance that the action furthers the strategic goals of the City.

***Common Real Property
Inventory Should Be Developed
And Maintained***

In order to develop and implement a strategic plan, the City must first have a comprehensive inventory of what it already has. For the inventory, the basic information required will need to be identified and verified and procedures will need to be developed to ensure the future integrity of the data. Right now, several City departments track real estate information, such as location, size, and use of property. However, information is tailored for individual operations, not compiled for the City as a whole. The asset management coordinator position, charged with maintaining the City-wide inventory, has not been able to accomplish the task. In addition, little effort has been made to verify the information departments keep, nor have procedures been established to make sure that all needed information is gotten.

For these reasons, existing real estate information cannot be relied upon. No procedures require that Financial Services should be notified when property is acquired, remodeled, or sold. Thus, Financial Services data about land and buildings may not be complete or accurate. ROW remnants from completed capital projects are not inventoried, although they represent both potential assets and liabilities for the City. Risk Management relies upon the completeness and accuracy of its list of City structures for appropriate insurance coverage, but no procedures are in place to make sure that goal is achieved. Risk Management relies upon self-reporting by the departments. Facilities Maintenance relies upon its property lists to plan workload, but no procedures are in place to verify the information.

***City Real Property Management
Policy And Procedures Need To
Be Developed***

No matter how much effort is put forth in developing a strategic plan and an inventory, an effective asset management function will not be realized without development of City policies and procedures to specify uniform property administration. Standard policies and procedures which everyone can follow will allow City staff to continue performing real estate duties while uniformly safeguarding City interests. A planned Asset Management Code covering real property

acquisition, management, and disposal has not been written, although it was to be a complementary volume to the City Procurement Code, adopted in 1990. The Procurement Code specifically excludes real property acquisitions and disposals. Because there is no Code, staff tailor real estate processes as they deem necessary within the confines of the Charter and other statutes and regulations. These practices mostly are not documented. No one is specifically charged to make sure functions are done correctly or to evaluate processes for potential improvements.

Just as procedures regarding purchase, management, and disposal of property need to be developed, so do procedures regarding the documentation. When Real Estate Services was operating, documentation was routine. Property folders were created which contained a wide range of information regarding the property. Since the reorganization, documentation has not been kept current. This represents a significant risk for the City. To mitigate this risk, procedures need to be developed to ensure that critical information such as title insurance, appraisals, and inspection reports are obtained and kept. The file should also include copies of leases, if appropriate. Procedures would also identify appropriate information to be obtained on any property the City enters into a lease for.

When developing these procedures, thought should be given to information that other departments need related to property acquisition and disposal. Risk Management and Facilities Maintenance, for example, need to have timely, accurate information in order to provide insurance coverage, custodial services, and utilities. Right now, any potential problems with insurability or maintenance issues potentially will not be identified until after the property is acquired or leased.

One method which could be considered to help ensure that information is obtained uniformly City-wide is development of a checklist for acquisition or disposal of property. Items such as the availability of utilities and the responsibility for establishing and disconnecting the service could be identified along with dates that the step was completed and initials indicating who performed the task.

***Staffing Needs Should
Be Re-Evaluated***

In addition to plans, inventories, and policies and procedures, the City needs to ensure that appropriate staff are available to carry out the duties of an effective asset management function. Periodic

education and training opportunities also need to be identified. During the course of the preliminary survey, interviews were held with individuals handling asset management duties, and the need for additional staff resources and training was consistently identified. City Attorney staff related that a large part of the assistance that they were asked to provide related to answering questions about procedures, forms, and other routine information which could be provided by an individual experienced in real estate. Acquiring or developing this expertise in-house would free City Attorney staff to address issues needing their particular expertise.

***Future Consideration Of
Automating Records Is
Warranted***

Once an asset management function is organized and an inventory is created (with procedures in place to maintain the data), efforts should be directed at automating the information into a City-wide database. Currently, different areas of the City track different types of information regarding property by different means. Financial Services tracks accounting information by way of an automated program indicating date of purchase or donation. The ROW manager tracks parcels which have been acquired for capital improvement projects, and the City's property tax auditor oversees a database of parcels within the geographic boundaries of the City.

The GIS division is creating a Land Information System that will compile information regarding all parcels located in the City. To create this database, information is obtained and validated against the County Assessor and Utility Billing records. Deed and quarter section maps are also input into the system. Consideration should be given to the potential to link the information and capabilities of the system to the needs of the asset management function.

***Periodic Review And Re-
Evaluation Of The Function
Will Be Necessary***

Changes in government reporting requirements, and in local, state, and federal mandates will affect asset management in the future. In order to ensure that the function continues to be effective, the process will need to be continually evaluated, and modified when necessary. Because of the potential effects of these outside forces, the asset management function needs to be active in identification of potential problems and comfortable with promoting changes.

One of the potential changes which should be considered is a Charter revision to address the issue of leasing. A Charter Review Commission is considering changes to lease requirements which

would go before the voters in 1996. City Charter requires that all leases be advertised for competitive bid, even though the asset management coordinator stated that there usually is only one interested bidder. The process thus promotes inefficient use of City staff resources. If City staff feel that it is not in the best interest of the City to have a Charter provision with this requirement, then efforts should be made to support a change.

Another potential change may come in the form of changes in government reporting standards. This proposed change would affect the information needed for the Comprehensive Annual Financial Report prepared annually by the City. This change, promoted by the Governmental Accounting Standards Board in its publication, *Preliminary Views on major issues related to Governmental Financial Reporting Model: Core Financial Statements*, would require an allocation of the cost of capital assets to reflect the use of the asset.

There are also regulations currently in effect which need to be evaluated for consideration when developing the function. This requirement, known as the Federal Common Rule, identifies records and procedures that must be followed for property purchased in whole or part with federal funds.

RECOMMENDATIONS

1. The City Manager should direct development of an appropriate organization structure for the asset management function. Required knowledge, skills, and abilities of asset management staff and performance measures should be defined.
2. The City Manager should direct development of a sustainable real estate inventory information system.
3. The City Manager should direct the drafting of needed changes to the City Charter and Ordinances to regulate the asset management function.
4. The Planning Administrator, Planning and Development, should ensure that existing practices of the asset management coordinator are documented, and existing real property files are restructured and completed to provide all needed documents to ensure City ownership of current property.

APPENDIX

Survey of City Asset Management
City Auditor Report No. 9405

B

Management Responses

January 31, 1996

TO: Cheryl Barcala, City Auditor

FROM: Barbara Burns, Assistant City Manager

BB

RESPONSE TO THE ASSET MANAGEMENT RECOMMENDATIONS

The following is the City Manager's Office response to the recommendations in the Asset Management Audit. I have reviewed the recommendations with Dick Bowers for his approval.

Responses:

Recommendation 1. We concur with establishing an appropriate organizational structure for Asset Management. A team, including Capital Project Management, Financial Services, and Organizational Effectiveness, has been formed to make recommendations on the structure. This recommendation is to come forward within the next 60 days. Required skills, knowledge, and abilities will be defined as part of this process.

Recommendation 2. We concur with this recommendation to establish a sustainable real estate inventory information system. A project is in process to accomplish this system. Financial Services has committed to implement and manage an inventory information system by July 1996, in conjunction with the existing Real Estate Services Team.

Recommendation 3. We concur with this recommendation that there is a need for changes in the City Charter and City Code as it relates to asset management. Some of these changes are in process currently. I am asking staff to work with your office to insure we are addressing changes you have indicated by December 1996.

Recommendation 4. We concur with this recommendation and will direct staff to proceed with implementation by December 1996.